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SIPDIS

SENSITIVE

STATE FOR EAP/ANP AND OES/EGC  
COMMERCE FOR 4530/ITA/MAC/AP/OSAO/ABENAISSA

E.O. 12958: N/A

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SUBJECT: NEW ZEALAND EXPECTS TO MISS KYOTO PROTOCOL TARGET

1. (SBU) Summary: The GoNZ has revised its assessment of the Kyoto Protocol's impact on New Zealand, saying that it now expects to exceed its emissions allocation target and will have to buy carbon credits from other parties to the treaty. Previously, the government had claimed that participation in the protocol would earn the country millions of dollars. With a campaign under way for elections September 17, the revised assessment has provided fodder for opposition attacks on the Labour-led government's competence. Nonetheless, New Zealand will remain committed to the Kyoto Protocol in the short term. Backing out would belie the country's identity as a "clean and green," multilateral player. End Summary.

2. (U) Minister Pete Hodgson, Convener of the Ministerial Group on Climate Change, announced June 16 that for the first time New Zealand's estimate of its greenhouse gas (GHG) emissions would exceed targets set under the Kyoto Protocol. In 2002, Hodgson campaigned for ratification of the treaty, saying that not signing it would be setting fire "to a very big check." At that time, estimates gave New Zealand an overall surplus position, due in large part to a sizeable forestry carbon sink credit of 100 million tons. With this recent changed estimate, New Zealand now faces an invoice of hundreds of millions of dollars--its magnitude depending on how much the excess GHG emissions will be and how much carbon credits will cost. Even under the most optimistic scenario, New Zealand expects to purchase carbon credits to meet its protocol obligations during the first commitment period of 2008 to 2012.

3. (U) The changed assessment results from the increased vehicle and factory emissions of a prospering economy and a decreased benefit from forest carbon sink credits. Vehicle and factory emissions jumped 24 percent from last year. Changes in how forest sinks are assessed--disallowing the inclusion of trees that were planted on land previously covered by scrub--reduced New Zealand's forestry carbon sink credits. Moreover, commercial forest planting has decreased from an annual peak of nearly 100,000 hectares in 1994 to only 10,000 hectares last year. When the government ratified Kyoto, it "nationalized" commercially saleable carbon credits from forest sinks. The forest industry believes those credits should instead be devolved to those who risk their capital to plant trees and asserts the government has taken away any incentive to plant more trees. With a glut of timber worldwide, high land and transportation costs, and a high exchange rate, a large increase in tree planting would be unlikely anyway.

4. (U) The Kyoto Protocol is seen by many New Zealanders as integral to their country's "clean and green" identity, constraining options for the GoNZ and would-be successors. Hodgson unsurprisingly affirmed on June 16 the Government's unwavering commitment to the protocol. The government believes that any movement away from the treaty would undermine New Zealand's image as faithful to its international obligations. Thus, while not missing the opportunity to accuse the Labour Government of mismanagement, the opposition National Party--which claims credit for the concession allowing New Zealand to take into account its forestry carbon sink--has indicated its support for Kyoto through the first commitment period ending 2012. However, the National Party has reserved the right, if elected to lead government, to bow out of further commitment periods if economically damaging to New Zealand. National opposed ratification because it feared a trade disadvantage with its two lead trade partners, Australia and the United States, which are not members of the treaty.

5. (U) To help meet its protocol obligations, the government in May had set a carbon tax of NZ \$15 (US \$10) per ton of carbon dioxide, which the government said would not change despite the expectation it will now miss its protocol target. Nevertheless, New Zealand's energy companies already were expecting to pass on more costs to their customers, meaning higher electricity and fuel bills for New Zealanders.

6. (SBU) Comment: While New Zealand's participation in the Kyoto Protocol is unshakable in the near term, National and other opposition parties will continue to cite the revised assessment as among several examples of Labour leaders' empty

promises and failure to live up to their self-image as good managers. Labour also remains vulnerable on pocketbook issues, with many New Zealanders feeling they have not participated proportionately in New Zealand's recent economic prosperity. Labour suffered a decline in public polls over its failure to include immediate tax cuts in this year's budget, and the commitment to the protocol will mean higher fuel and electricity prices. However it is unlikely that the Kyoto Protocol will be an election-breaking issue.

Burnett